

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 3900

UNCLAS HONG KONG 1878

E.O. 11652: N/A

TAGS: EFIN, HK

SUBJ: HKG SETS STAGE FOR GLOOMY BUDGET SPEECH

1. SUMMARY. IN BREAK WITH TRADITION, HKG OVER WEEKEND RELEASED STATISTICAL BACKGROUND FOR FORTHCOMING BUDGET. THIS COMPENDIUM OF DISHEARTENING TREND LINES PRESAGES SEVERE RETRENCHMENT IN GOVERNMENT SPENDING, OR HIGHER TAXES, OR BOTH. END SUMMARY.

2. THE FINANCIAL SECRETARY IS SCHEDULED TO PRESENT THE 1973/6 BUDGET ON FEBRUARY 26. ALTHOUGH THERE HAVE BEEN NO LEAKS, AS SUCH, THERE HAS BEEN MORE ADVANCE PUBLIC DISCUSSION OF THIS BUDGET THAN OF ANY PREVIOUS ONE. A DECLINE IN ECONOMIC ACTIVITY HAS CUT INTO REVENUES FOR THE CURRENT FINANCIAL YEAR AND THE HKG IS HEADED FOR AN UNACCUSTOMED DEFICIT. THE HKG ECONOMIC BACKGROUND IS USUALLY PUBLISHED ON BUDGET DAY. THIS YEAR, IT WAS RELEASED TO THE PRESS ON FEBRUARY 23 TO PERMIT THE BAD NEWS TO SINK IN IN ADVANCE.

3. THE BACKGROUND COVERS THE FIRST NINE MONTHS OF 1974. DURING THIS PERIOD:

A) REAL GNP ROSE BY 1-1/2 PERCENT (GIVEN A FURTHER ECONOMIC DECLINE IN THE FOURTH QUARTER, THE AN-
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NUAL FIGURE WILL PROBABLY BE LESS THAN 1 PERCENT);

B) PER CAPITA GNP DECLINED BY AN UNSPECIFIED PERCENTAGE;
C) DOMESTIC EXPORTS ROSE BY ONLY 1-1/2 PERCENT IN QUANTITY TERMS;
D) MANUFACTURING EMPLOYMENT DECLINED BY 10 PERCENT; AND
E) WAGE RATE REMAINED LEVEL (I.E., REAL WAGES DECLINED FURTHER)

4. THESE DEVELOPMENTS POINT TO A SEVERE BUDGETARY CRUNCH. LAST JULY, THE FINANCIAL SECRETARY WARNED OF IMPENDING BUDGET DEFICITS UNLESS THE GOVERNMENT PARED SPENDING OR RAISED TAXES (SEE HK-8371). THE REACTION FROM THE BUSINESS COMMUNITY WAS A PREDICTABLE REJECTION OF THE HIGHER TAX ROUTE. A SMALL TAX INCREASE, WHICH WOULD STILL LEAVE HONG KONG IN THE CATEGORY OF LOW-TAX GOVERNMENTS, CANNOT BE RULED OUT. THE SPENDING SIDE, HOWEVER, RAISES MORE QUESTIONS. THE BIGGEST CHUNK OF NEW GOVERNMENT SPENDING IN RECENT YEARS HAS BEEN TO IMPLEMENT THE GOVERNOR'S FAR-REACHING PROGRAMS FOR HOUSING, EDUCATION, AND SOCIAL WELFARE. THESE WERE EXEMPTED FROM RETRENCHMENTS ANNOUNCED FOR THE 1974/5 BUDGET, BUT IT REMAINS TO BE SEEN WHETHER THEY WILL FARE AS WELL IN THE FORTHCOMING BUDGET.

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